

UNITED STATES OF AMERICA
 Before The
 OFFICE OF THRIFT SUPERVISION

In the Matter of:

First Federal Savings Bank
 of Shenandoah Valley,
 Front Royal, Virginia

Re: No. ATL-96-3

Date: February 26, 1996

STIPULATION AND CONSENT TO THE ISSUANCE OF AN
 ORDER TO CEASE AND DESIST

WHEREAS, the Office of Thrift Supervision ("OTS"), based upon information derived from the exercise of its regulatory responsibilities, is of the opinion that grounds exist to initiate an administrative cease and desist proceeding against First Federal Savings Bank of Shenandoah Valley, Front Royal, Virginia, OTS No. 06985 ("First of Shenandoah Valley" or the "Institution") pursuant to Section 8(b) of the Federal Deposit Insurance Act ("FDIA"), 12 U.S.C. § 1818(b).¹

WHEREAS First of Shenandoah Valley desires to cooperate with the OTS and to avoid the time and expense of such administrative proceeding and, without admitting or denying that such grounds

1. All references to the United States Code ("U.S.C.") are as amended.

exist except those as to jurisdiction (as set forth in Paragraph 1, below) which are admitted, hereby stipulates and agrees to the following:

1. Jurisdiction.

- (a) First of Shenandoah Valley is a "savings association" within the meaning of Section 3(b) of the FDIA, 12 U.S.C. § 1813(b), and Section 2(4) of the Home Owners' Loan Act, 12 U.S.C. § 1462(4). Accordingly, it is an "insured depository institution" as that term is defined in Section 3(c) of the FDIA, 12 U.S.C. § 1813(c).
- (b) Pursuant to Section 8(b) of the FDIA, 12 U.S.C. § 1818(b), the appropriate Federal banking agency may issue a cease and desist order against any insured depository institution that engages in unsafe or unsound practices in conducting its business, violates a written agreement with that agency, and/or violates a rule or regulation.
- (c) Pursuant to Section 3(q) of the FDIA, 12 U.S.C. § 1813(q), the Director of the OTS is the "appropriate Federal Banking agency" to maintain an administrative proceeding against such a savings association. Therefore, First of Shenandoah Valley is subject to the jurisdiction of the OTS to initiate and maintain an administrative proceeding against it pursuant to Section 8(b) of the FDIA, 12 U.S.C. § 1818(b).

2. OTS Findings of Fact. The OTS finds that:

- a. The Institution failed to obtain loan documentation required by Section 7(f) of the Order to Cease and Desist dated September 19, 1985, which Order was stipulated and consented to by the Institution and approved by Federal Home Loan Bank Board Resolution No. 85-842.
- b. The Institution violated 12 C.F.R. §574.9, requiring prior OTS approval of new senior executive officers and directors, by failing to obtain approval to hire a consultant, who served as a de facto senior executive officer of the Institution;
- c. The policies and procedures of the Institution were insufficient to prevent the failure of certain directors to avoid conflicts of interest or the appearance of conflicts of interest, including but not limited to: 1) the making of loans to, and accepting subordinate collateral positions from, borrowers who were indebted to a director or his related interests; and 2) renting property to relatives of Institution officers on terms and conditions more favorable than those available in the marketplace;

d. The Institution failed to operate under an appropriate business plan, as the Institution's plan that existed as of May 25, 1995, did not contain a narrative description of the Institution's missions, goals, objectives or strategies, does not analyze the Institution's current regulatory, competitive or economic environment, and does not adequately address the Institution's level of operating expenses or criticized assets.

3. Consent.

First of Shenandoah Valley consents to the issuance by the OTS of the Order. It further agrees to comply with the terms of the Order upon issuance and stipulates that the Order complies with all requirements of law.

4. Finality.

The Order is issued under Section 8(b) of the FDIA, 12 U.S.C. § 1818(b). Upon its issuance by the Regional Director or designee for the Southeast Region, OTS, it shall be a final order, effective and fully enforceable by the OTS under the provisions of Section 8(i) of the FDIA, 12 U.S.C. § 1818(i).

5. Waivers.

- (a) First of Shenandoah Valley waives its right to a written notice of charges and the administrative hearing provided by

Section 8(b) of the FDIA, 12 U.S.C. § 1818(b), and further waives any right to seek judicial review of the Order, including any such right provided by Section 8(h) of the FDIA, 12 U.S.C. § 1818(h), or otherwise to challenge the validity of the Order.

- (b) First of Shenandoah Valley acknowledges and agrees that the consent to the entry of the Order is for the purpose of resolving this OTS enforcement matter only, in relation to the matters described in Paragraph 2, above, and does not resolve, affect or preclude any other civil or criminal proceeding that may be or has been brought by the OTS or another governmental entity.

6. Signature of Directors.

Each Director signing this Stipulation attests that he voted in favor of a resolution authorizing the execution of the Stipulation.

WHEREFORE, First of Shenandoah Valley, by a majority of its directors, executes this Stipulation and Consent to the Entry of an Order to Cease and Desist, intending to be legally bound hereby.

First Federal Savings Bank
of Shenandoah Valley
by a majority of its directors

Accepted by:

Office of Thrift Supervision

By: *A. B. Biondi*
Director

John E. Ryan
Richard M. Riccobono John E. Ryan
REGIONAL DIRECTOR
Southeast Region

Th. L. Hoy
Director

Date: February 26, 1996

32. [Signature]
Director

Kimberlie P. Belcher
Director

[Signature]
Director

Director

Director

Director

Director

WHEREFORE, First of Shenandoah Valley, by a majority of its directors, executes this Stipulation and Consent to the Entry of an Order to Cease and Desist, intending to be legally bound hereby.

First Federal Savings Bank
of Shenandoah Valley
by a majority of its directors

Accepted by:

Office of Thrift Supervision

By: AC Burdick
Director

Director

Director

Director

Director

~~Director~~

Director

Director

Director

Director

~~Richard M. Riccobene~~ John E. Ryan
REGIONAL DIRECTOR
Southeast Region

Date: February 26, 1996

03:52 12/26/95 FIRST FEDERAL SF-1220 703 635 1427

PAGE 07

FIRST FSB OF SHENANDOAH VALLEY
Front Royal, Virginia (OTS No. 06985)
Stipulation and Consent to the Entry of
an Order to Cease and Desist (02/26/96)
Page 6 of 6

WHEREFORE, First of Shenandoah Valley, by a majority of its
directors, executes this Stipulation and Consent to the Entry of
an Order to Cease and Desist, intending to be legally bound
hereby.

First Federal Savings Bank
of Shenandoah Valley
by a majority of its directors

By:

Director

Accepted by:

Office of Thrift Supervision

John E. Ryan
Richard M. Rice and John E. Ryan
REGIONAL DIRECTOR
Southeast Region

Date: February 26, 1996

Director

Director

Director

Director

Director

Director

Director

Director

WHEREFORE, First of Shenandoah Valley, by a majority of its directors, executes this Stipulation and Consent to the Entry of an Order to Cease and Desist, intending to be legally bound hereby.

First Federal Savings Bank
of Shenandoah Valley
by a majority of its directors

By: Thomas E. Linsch
Director

Director

Director

Director

Director

Director

Director

Director

Director

Accepted by:

Office of Thrift Supervision

John E. Ryan
~~Richard M. Rieck~~ John E. Ryan
REGIONAL DIRECTOR
Southeast Region

Date: February 26, 1996

CERTIFIED COPY OF
RESOLUTION OF BOARD OF DIRECTORS

I, the undersigned, being the duly appointed and qualified Secretary of First Federal Savings Bank of Shenandoah Valley, Front Royal, Virginia, OTS No. 06985 ("the Institution") hereby certify as follows:

1. A duly called meeting of the Board of Directors of the Association was held on February 22, 1996;

2. At said meeting a quorum was present and voting throughout;

3. The following is a true copy of resolutions duly adopted by the Association's Board of Directors, which resolutions have not been rescinded or modified and are now in full force and effect:

WHEREAS, the Board of Directors of the Association wishes to cooperate with the OTS and to demonstrate that said Board and the Association have the intent to : (1) comply with all applicable laws and regulations and (2) engage in safe and sound practices; and

WHEREAS, the directors of the Association have read and considered: (i) the Order to Cease and Desist (the "Order") and (ii) the Stipulation and Consent to the Order to Cease and Desist (the "Stipulation") attached to the minutes of the meeting of the Board of directors held on December 21, 1995 and

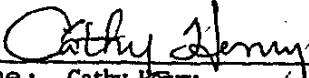
WHEREAS, after due consideration, the Directors of the Association have determined to stipulate and consent to the issuance of the Order in the interest of regulatory compliance and cooperation;

NOW, THEREFORE BE IT RESOLVED, that the attached Stipulation, the provisions of which are incorporated herein by reference, be and is hereby approved by the Board of Directors of the Association,

FURTHER RESOLVED, that the Directors and Officers of the Association are directed and authorized to take all necessary steps to implement immediately the terms of the Order and to comply, in all respects with such Order.

4. All members of the Board of Directors were present and voted at the meeting (except N/A) and all members of the Board of Directors (except Ronald S. Gilliam) voted in favor of the resolution;

IN WITNESS WHEREOF, I have hereto subscribed my name and
affixed the seal of the Association on this 22nd day of
February, 1996.



Name: Cathy Henry
Title: Corporate Secretary

12

UNITED STATES OF AMERICA

Before The
OFFICE OF THRIFT SUPERVISION

In the Matter of:

First Federal Savings Bank
of Shenandoah Valley,
Front Royal, Virginia

Re: No. ATL-96-3

Date: February 26, 1996

ORDER TO CEASE AND DESIST

WHEREAS, First Federal Savings Bank of Shenandoah Valley, Front Royal, Virginia, OTS Docket No. 06985 ("First of Shenandoah Valley" or the "Institution"), by and through its Board of Directors ("Board"), has executed a Stipulation and Consent to the Issuance of an Order to Cease and Desist ("Stipulation"); and

WHEREAS, First of Shenandoah Valley, in the Stipulation, has consented and agreed to the issuance of this Order to Cease and Desist ("Order") pursuant to 12 U.S.C. § 1818(b).¹

WHEREAS, the Director of the Office of Thrift Supervision ("OTS") has delegated to the Regional Directors of the OTS the

1. All references to the United States Code ("U.S.C."), are as amended.

authority to issue Orders to Cease and Desist on behalf of the OTS where savings associations such as First of Shenandoah Valley have consented to the issuance of the Order.

NOW THEREFORE, IT IS ORDERED THAT First of Shenandoah Valley and its directors, officers, employees, agents, service corporations and subsidiaries, shall cease and desist from any action (alone or with another or others) for or toward causing, bringing about, participating in, counseling or the aiding and abetting of any unsafe or unsound practice or any violation of:

1. 12 C.F.R. § 574.9 (1995) (requiring prior OTS approval of new senior executive officers and directors); and
2. 12 C.F.R. § 574.3 (1995) (requiring prior OTS approval of controlling stockholders);

IT IS FURTHER ORDERED THAT:

3. Termination of Outstanding Cease and Desist Order.

The Order to Cease and Desist dated September 19, 1985, and approved by Federal Home Loan Bank Board Resolution No. 85-842, is hereby terminated.

4. Approval of Directors and Senior Officers.

As required by 12 U.S.C. § 1831i and 12 C.F.R. § 574.9, the Institution shall provide at least 30 days prior written notice of the addition of any director or senior executive officer (as those terms are defined in 12 C.F.R. § 574.9) to the OTS before the employment becomes effective.

5. Business Plan.

- A. Within 90 days of the Effective Date of this Order (as defined in Paragraph 20 of this Order, the "Effective Date"), the Institution shall prepare, adopt and submit to the Regional Director a three year business plan covering fiscal years 1996, 1997 and 1998. The plan shall detail the Institution's operating strategy, including pro forma financial statements and relevant assumptions, for the period covered in the plan. The business plan shall, at a minimum: specify the lines of business the Institution will pursue; identify target markets; specify how the target markets will be served profitably with the lines of business offered; detail the Board's plans to raise additional capital as needed to support the risk profile of the Institution; control exposure to interest rate risk; and improve core earnings. The pro forma financial statements should reflect a reduction of noninterest operating expenses relative to asset size over the course of the plan. The Board shall review and approve the business plan and monitor compliance with its terms at least quarterly.
- B. As part of the business plan, the Institution shall develop a plan to reduce its general and administrative expenses relative to asset size. In preparing the plan, the

Institution shall institute a review of its legal expenses for the three years immediately preceding the Effective Date of this Order to determine the reasonableness of prior expenses and ways in which legal expenses can be reduced in the future.

- C. The Institution shall produce quarterly variance reports ("Reports") within 30 days after the close of each calendar quarter. Said Reports shall detail actual operating results versus projected results. The Report also shall include an explanation of any material deviation from the projection and a specific description of the measures that have been implemented or are proposed to correct any adverse deviation. A deviation shall be considered material when the Institution:

- (1) engages in any type of activity inconsistent with the business plan;
- (2) deviates more than 10% from the projected level of activity contemplated in the business plan; however, if the activity involves assets risk-weighted 50% or less, a variance of more than 25% shall be deemed to be a material deviation;
- (3) does not meet the targets set for the reduction of noninterest operating expenses; or

(4) does not meet the targets set for exposure to interest rate risk.

D. The Institution shall retain a copy of the Reports in the Board minutes, and shall, within 5 days after preparation of the Report, forward a copy to the Regional Director.

6. Conflicts of Interest.

A. Within 60 days of the Effective Date, the Institution shall revise, implement, and thereafter adhere to policies and procedures designed to ensure that the Institution complies with OTS Statement of Policy, 12 C.F.R. § 571.7, and shall take action as necessary to eliminate conflicts of interest or to avoid the appearance of a conflict of interest in transactions between First of Shenandoah Valley, its service corporations and subsidiaries, and its directors, officers, and other affiliated persons. Specifically, the Institution shall address those conflicts described in the March 31, 1995 OTS Safety and Soundness Report of Examination ("1995 ROE"), and shall prohibit such transactions in the future. At a minimum, the Directors shall be required to adhere to the conflicts of interest policy, and shall agree in writing to be bound by a written code of ethics to be adopted by the Institution.

B. The Board shall be responsible for the Institution's compliance with the policies and procedures required by this

Paragraph 6 of this Order, shall obtain and review quarterly reports from Management indicating the level of compliance, and document the Board's review in the minutes.

7. Liquidation of Criticized Assets.

Within 90 days of the Effective Date of this Order, the Institution shall formulate, implement, and thereafter adhere to policies and procedures designed to reduce the level of criticized assets noted in the 1995 ROE. Such policies and procedures shall provide that the level of criticized assets shall be reduced to a figure no greater than 50% of the Institution's core capital, and shall show specific steps by which the Institution plans to liquidate real estate owned and real estate held for investment. Within 5 days of the adoption of the policies and procedures called for in this Paragraph 7, the Board shall forward a copy of said policies and procedures to the Regional Director along with a certified resolution of the Board evidencing adoption.

8. Liquidation of First Service Corporation.

Within 90 days of the Effective Date of this Order, the Institution shall formulate, implement, and thereafter adhere to policies and procedures designed to liquidate the remaining assets of First Service Corporation. Within one year of the Effective Date of this Order, the Institution shall dispose of all of the

assets of First Service Corporation on its books as of the Effective Date of this Order. The Regional Director may, for good cause shown, extend this period. Thereafter, First of Shenandoah Valley shall not engage in any activity through any subsidiary that would not be permissible for a national bank.

9. Institution Organization and Lending Procedures.

Within 90 days of the Effective Date, the Board shall review present management and shall formulate and submit to the Regional Director a management plan that shall contain:

- A. An organizational chart that designates lines of authority, responsibility, and compensation for each officer position. The Board also shall perform a written review of each director's responsibilities and compensation.
- B. Job descriptions for each officer position on the organizational chart.
- C. Specific policies designed to prevent interference in day-to-day lending decisions by members of the Board.
- D. Specific policies that require appropriate internal controls for the disposition of assets.

10. Loans to Controlling Stockholders.

First of Shenandoah Valley shall make no loans to stockholders who own, directly or indirectly, or acting in concert with one or more persons, 10% or more of its outstanding voting shares without the prior written approval of the Regional Director.

11. Loans Involving Institution Stock.

First of Shenandoah Valley shall provide no loans of any kind to any person to directly or indirectly finance the purchase of any class of the capital stock of the Institution. In addition, First of Shenandoah Valley shall not accept its own stock as collateral for any loan.

12. Loan Underwriting Standards.

- A. First of Shenandoah Valley shall comply with the requirements of 12 C.F.R. § 563.93, regarding loans-to-one-borrower limitations and documentation requirements. Loans on First of Shenandoah Valley's books and records as of the date of this Order that exceed applicable regulatory limitations for loans-to-one-borrower shall be reduced to or below the maximum applicable lending limitation as soon as possible at no loss to First of Shenandoah Valley.
- B. First of Shenandoah Valley shall, in accordance with 12 C.F.R. § 563.170(c)(1)(vii), maintain documentation in each loan file that discloses the ultimate recipient and/or beneficiary of loan proceeds.
- C. First of Shenandoah Valley shall comply with the documentation requirements set forth above, and the requirements specified in 12 C.F.R. § 563.170(c)(1), for each loan secured by real estate which is considered or granted by First of Shenandoah Valley.

13. Real Estate Appraisals.

Prior to making or acquiring, or committing to make or acquire, any loan, participation or extension of credit in excess of \$250,000 to be secured by real property, the Institution shall obtain a current appraisal report prepared in accordance with the requirements of 12 C.F.R. Part 564 stating and supporting the fair market value of the security property. Prior to final approval for all such loans, participations or extensions of credit made or acquired by First of Shenandoah Valley, the appraisal shall be reviewed and analyzed by a qualified Institution staff member. First of Shenandoah Valley's Board shall, by resolution, designate one or more officers of First of Shenandoah Valley to be responsible for the review of all such appraisal reports submitted to the Institution.

14. Hiring of Consultants.

The Institution shall not, without the prior written approval of the Regional Director, engage the services of any consultant. Further, the Institution may only engage the services of a consultant if a written agreement between the Institution and the consultant, specifying the terms and conditions of employment, has been executed by both parties and approved by the Board. No compensation other than what is dictated by the terms of the

written agreement may be paid to any consultant without the approval of the Board. All decisions by the Board shall be fully documented in the minutes of the Board. As used in this Paragraph, the term "consultant" shall not be deemed to include either certified public accountants providing audit services to First of Shenandoah Valley, or licensed attorneys.

15. Director Responsibility.

Notwithstanding the requirements of this Order that the Board submit various matters to the Regional Director for the purpose of receiving his approval, non-objection or notice of acceptability, such regulatory oversight does not derogate or supplant each individual director's continuing fiduciary duty. The Board shall have the ultimate responsibility for overseeing the safe and sound operation of the Institution at all times, including compliance with the determinations of the Regional Director as required by this Order.

16. Compliance with Order.

- A. The Board and Officers of the Institution shall take immediate action to cause the Institution to comply with the terms of this Order and shall take all actions necessary or appropriate thereafter to cause the Institution to continue to carry out the provisions of this Order.

- B. The Board shall promptly respond to any request from the OTS for documents that the OTS reasonably requests to demonstrate compliance with this Order.
- C. The Board, no later than 30 days following the end of a calendar quarter (including the calendar quarter during which the Order is issued), shall adopt a board resolution (the "Compliance Resolution") formally resolving that, following a diligent inquiry of relevant information (including reports of management), to the best of its knowledge and belief, during the immediately preceding calendar quarter, the Institution has complied with each provision of this Order currently in effect, except as otherwise stated. The Compliance Resolution shall: (i) specify in detail how, if at all, full compliance was found not to exist, and (ii) identify all notices of exemption issued by the Regional Director that were outstanding as of the date of its adoption. Any director dissenting from the adoption of the Compliance resolution shall be identified in the Board minutes along with his reason for dissenting. No later than five (5) days following the adoption of the Compliance Resolution, the Institution shall provide to the Regional Director a certified copy of the Compliance Resolution and

the Board meeting minutes. The Board, by virtue of the Institution's submission of a certified copy of each such Compliance Resolution to the Regional Director, shall be deemed to have certified to the accuracy of the statements set forth in each Compliance Resolution, except for dissenting directors.

MISCELLANEOUS

17. Definitions:

All technical words or terms used in this Order and the Stipulation for which meanings are not specified or otherwise provided by the provisions of this Order shall, insofar as applicable, have meanings as defined in Chapter V of Title 12 of the Code of Federal Regulations, the Home Owners' Loan Act ("HOLA"), the Federal Deposit Insurance Act ("FDIA") or OTS Memoranda. Any such technical words or terms used in this Order or the Stipulation and undefined in said Code of Federal Regulations, HOLA, FDIA, or OTS Memoranda shall have meanings that are in accordance with the best custom and usage in the savings and loan industry.

18. Successor Statutes, Regulations, Guidance, Amendments.

Reference in this Order and the Stipulation to provisions of statutes, regulations, and OTS Memoranda shall be deemed to include references to all amendments to such provisions as have

been made as of the Effective Date and references to successor provisions as they become applicable.

19. Notices.

A. Except as otherwise provided herein, any request, demand, authorization, direction, notice, consent, waiver or other document provided or permitted by the Order to be made upon, given or furnished to, delivered to, or filed with:

- (1) the OTS by the Institution, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid or sent via overnight delivery service or physically delivered, in each case addressed to the Regional Director, Office of Thrift Supervision, Department of the Treasury, 1475 Peachtree St., N.E., Atlanta, Georgia 30309 or telecopied to (404) 897-1861 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.
- (2) the Institution by the OTS, shall be sufficient for every purpose hereunder if in writing and mailed, first class, postage prepaid, or sent via overnight delivery service or physically delivered, in each case addressed to the Institution at 1 South Royal Ave., Front Royal,

Virginia 22630 or telecopied to (540) 635-1427 and confirmed by first class mail, postage prepaid, overnight delivery service or physically delivered, in each case to the above address.

- B. Notices hereunder shall be effective upon receipt, if by mail, overnight delivery service or telecopy, and upon delivery, if by physical delivery. If there is a dispute about the date on which a written notice has been received by a party to this Order, then, in the event such notice was sent by the United States mail, there shall be a presumption that the notice was received two Business Days after the date of the postmark on the envelope in which the notice was enclosed.

20. Duration, Termination or Suspension of Order.

- A. This Order shall: (i) become effective upon its execution by the OTS, through its authorized representative whose signature appears below (the "Effective Date") and (ii) remain in effect until terminated, modified or suspended in writing by the OTS, acting through its Director or the Regional Director (including any authorized designee thereof).

B. The Regional Director in his or her sole discretion, may, by written notice, suspend, modify or terminate any or all provisions of this Order.

21. Time Limits.

Time limitations for compliance with the terms of this Order run from the Effective Date, unless otherwise noted.

22. Effect of Headings.

The Section headings herein are for convenience only and shall not affect the construction hereof.

23. Separability Clause.

In case any provision in this Order is ruled to be invalid, illegal or unenforceable by the decision of any Court of competent jurisdiction, the validity, legality and enforceability of the remaining provisions hereof shall not in any way be affected or impaired thereby, unless the Regional Director in his/her sole discretion determines otherwise.

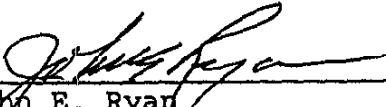
24. No Violations of Law, Rule, Regulation or Policy Statement Authorized; OTS Not Restricted.

Nothing in this Order shall be construed as: (i) allowing the Institution to violate any law, rule, regulation, or policy statement to which it is subject or (ii) restricting or estopping the OTS from taking any action(s) that it believes are appropriate in fulfilling the responsibilities placed upon it by law.

25. Successors in Interest/Benefit.

The terms and provisions of this Order shall be binding upon, and inure to the benefit of, the parties hereto and their successors in interest. Nothing in this Order, express or implied, shall give to any person or entity, other than the parties hereto, the Resolution Trust Corporation, and the Federal Deposit Insurance Corporation and their successors hereunder, any benefit or any legal or equitable right, remedy or claim under this Order.

THE OFFICE OF THRIFT SUPERVISION

By: 
John E. Ryan
Southeast Regional Director

Date: February 26, 1996